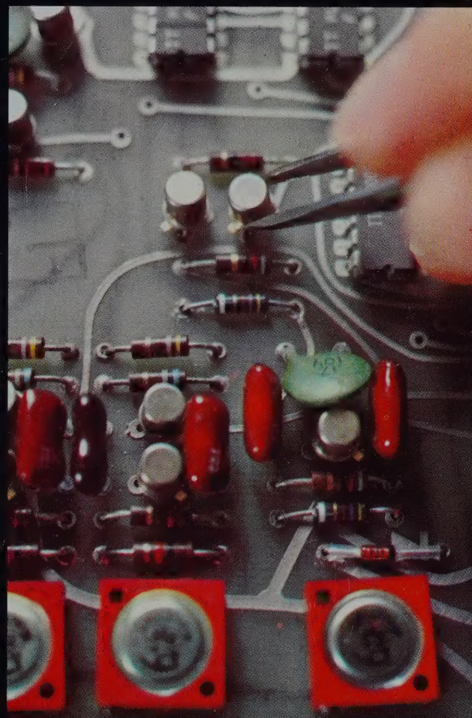
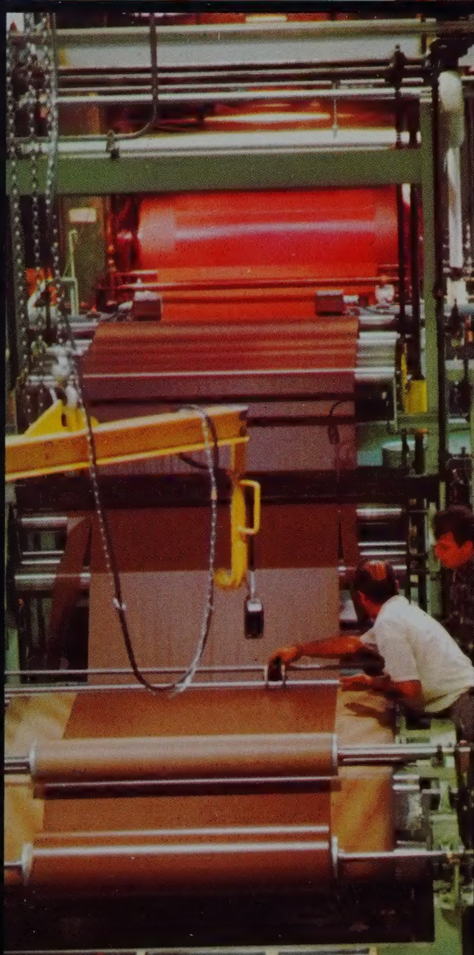
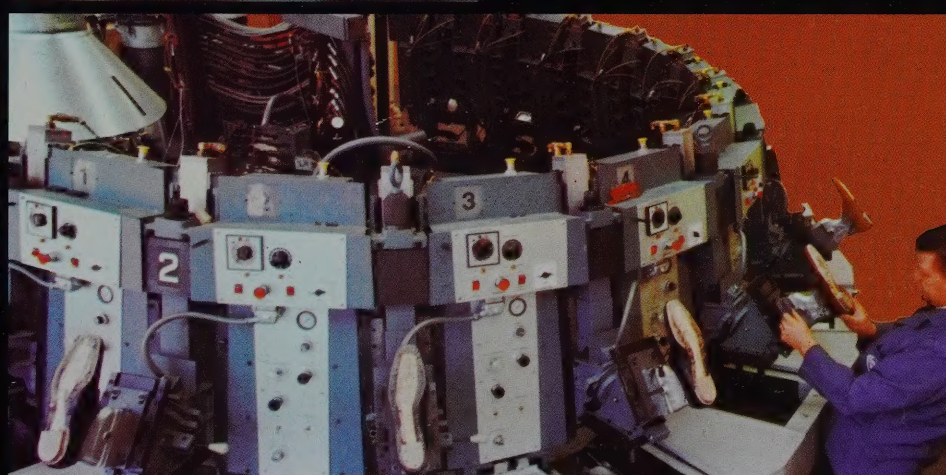
USM Corporation

Research/Systems/Manufacturing

Annual Report for the Fiscal Year ended February 28, 1970







USM Corporate Purpose

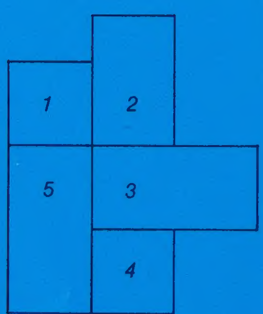
Long-run inflation, rising labor rates, high cost of money and expanding world trade have created an acute need for greater productivity in the production of goods and services. This demand will accelerate throughout the 1970's.

As an established international corporation which is widely diversified as to both products and markets, USM is exceptionally well qualified to apply advanced technology to meet industry's increasing requirements for greater productivity.

We at USM see a "Second Industrial Revolution" in the process of development — one which involves complete systems rather than individual machine operations which produced the first industrial revolution.

"USM Productivity Systems" are efficient combinations of controls, machinery, related material, and service which meet specific customer needs better than separate unrelated components.

USM is especially qualified by its history, its assets and its abilities to develop, manufacture and service these systems, and it is this role we have adopted as the focus of our corporate purpose. It is our goal to operate as a responsible corporate citizen in cooperation with our 27,000 employees to realize above-average growth for our shareowners in this promising field.



Cover

Representing USM's 5 worldwide product groups are, clockwise: 1, Fastener Group — "Pop" rivets at Expo '70 (page 8); 2, Special Products Group — Truelove & Maclean transistor encapsulation in Spiras computer circuit (page 13); 3, Production Machinery and Related Supplies Group — USM machine-chemical development molds and attaches urethane soles to footwear (page 11); 4, Chemical Group — Thermogrip iron-on adhesive used for stitchless home sewing (page 7); 5, Capital Equipment Group — Farrel vinyl calendering equipment in high speed operation (page 4).

Highlights

Fiscal years ended February 28	1970	1969	% Change
Gross revenues	**$429,684,000**	$359,120,000	+20
Operating income	**$ 40,079,000**	$ 36,544,000	+10
Net income	**$ 18,597,000**	$ 16,963,000	+10
Dividends on preferred and preference stock	**$ 1,860,000**	$ 1,256,000	—
Per share—preferred	**$1.50**	$1.50	—
Per share—preference	**$2.10**	$1.23[1]	—
Net income applicable to common stock	**$ 16,737,000**	$ 15,707,000	+ 7
Per share			
Primary earnings	**$3.62**	$3.47	+ 4
Assuming full dilution	**$3.32**	$3.31	—
Dividends paid on common stock	**$ 7,304,000**	$ 6,926,000	+ 5
Per share	**$1.60**	$1.55	+ 3
Earnings retained in business	**$ 9,433,000**	$ 9,130,000	+ 3
Weighted average number of common shares outstanding	**4,619,167**	4,529,925	+ 2
Number of shareowners	**22,883**	22,612	+ 1
Number of employees	**27,377**	25,957	+ 5

(1) Equivalent to 7/12 of annual dividend requirement of $2.10.
The common per share amounts reflect the two-for-one split in July 1968.
All figures have been restated to include Finch Paint & Chemical Co. acquired in 1970 on a pooling of interests basis.

Contents

Annual Meeting
The Annual Meeting of Shareowners of the Corporation will be held at 10:00 A.M., Thursday, July 23, 1970, in the Georgian Room of the Statler-Hilton Hotel, Park Square, Boston, Massachusetts. A formal notice of the meeting together with a proxy statement and form of proxy will be mailed to shareowners in June.

Stock Transfer Agents
Old Colony Trust Company
1 Federal St., Boston, Mass. 02110
Manufacturers Hanover Trust Company
40 Wall St., New York, N. Y. 10015

Registrars of Stock
The First National Bank of Boston
67 Milk St., Boston, Mass. 02110
First National City Bank
111 Wall St., New York, N. Y. 10015

Independent Certified Public Accountants
Lybrand, Ross Bros. & Montgomery
Two Center Plaza, Boston, Mass. 02108

USM World Headquarters
140 Federal Street
Boston, Massachusetts 02107

To USM Shareowners:

While the nation's economic output last year slackened in terms of real growth to a rate of only 2.8 per cent, your company was able to achieve an earnings improvement on record volume. USM volume reached a new high of $429,684,000 for a gain of $70,564,000 or 20 per cent over the previous record last year of $359,120,000 as restated. Net income for the year increased to $18,597,000 ($3.62 per share) from $16,963,000 ($3.47 per share) the previous year. Assuming full dilution, per share earnings would have been $3.32 in fiscal 1970 compared with $3.31 the previous year. Our earnings performance followed our expectations for the year.

Major contributions to USM's financial progress came from our international and Farrel operations. Our U. S. business was adversely affected by the reduced output of American footwear and the generally slower economy. While the long-term footwear consumption trend continues up, the mounting level of imports has severely reduced the market share of American footwear production. Our domestic performance was also impaired by a 13 working-day strike at our Machinery Division.

Herbert W. Jarvis, President *William S. Brewster, Chairman*

On July 10th, British United Shoe Machinery Company Ltd.'s minority shareowners accepted USM's offer to exchange their shares for loan stock (the British equivalent of a U. S. corporate debenture) with attached warrants to purchase USM common stock. The acquisition will enable USM to improve its future earnings by more closely coordinating its British group operations with those in Continental Europe where it owns 100 per cent of its subsidiaries to better serve the combined growing markets.

During fiscal 1970 we used a new venture-capital concept in acquiring an interest in three high-technology companies in the electronic control area. The companies included Spiras

Systems, Inc. (formerly I.R.A. Systems, Inc.), Vibrac Corporation and Schaeffer Magnetics, Inc. As with many of our high-risk research projects where the possibility of loss is commensurate with potential rewards, the new additions provide attractive opportunities specifically in the fast-rising markets predicted for mini-computers, electromechanical devices and data display systems. In addition, they should markedly improve USM's systems capability. As anticipated, we are incurring high research and development expenses and have experienced heavy start-up losses, but we believe that these companies will eventually make a valuable contribution to USM's growth.

We continued our penetration of the textile and apparel markets with the acquisition of Crown-Metro, Inc. of Providence, R. I. This growing company's chemical lines are also used by the paper, leather and metal industries. We also expanded our activities in the transportation area with the acquisition of Finch Paint & Chemical Co., Torrance, Calif., producer of high-performance aircraft coatings.
New facilities in the domestic chemical and machinery groups will contribute to our internal growth.

In October, USM's new chemical plant at Middleton, Mass. went into full-time operation on the production of specialty polymer adhesives for footwear and general industry. An 87,000 square foot engineering building was completed at our Farrel Company Division at Ansonia, Conn., and new construction is underway to meet growing demands for plastic and other industrial equipment.

Active discussions continue with a number of companies regarding the divestiture of the two USM subsidiaries — Inter-Coastal Shoe Machinery Corporation and Transamerican Shoe Machinery Corporation. As we announced last year, the assets to be divested under the Consent Decree with the Justice Department have been transferred to these subsidiaries.
We will continue our efforts to divest the businesses of both subsidiaries within the time limit of February 20, 1971, established by the Court. It is our intention to replace these assets with others having growth potential.

Since the end of our fiscal year, USM has acquired the assets and business of The Bailey Company, Inc., of Amesbury, Mass., a manufacturer of window channels and weather seals. Bailey will extend USM's capabilities in two of its primary markets — the automotive and construction industries.

While we expect further significant changes will occur as the Corporation grows during the 1970's, it may be helpful to review briefly how changes made in the 1960's prepare us for the challenges of the new decade.

As indicated in our statement of corporate purpose on the inside cover, with the prospects of higher costs of labor and money and the basic role greater productivity must play in controlling inflation, we are convinced productivity systems are a real growth area for the 1970's. We have characterized this trend toward productivity systems as the "Second Industrial Revolution" and last October launched a corporate advertising program aimed at explaining USM's role in this growth business.

USM has, of course, long worked in the area of increasing customer productivity both here and abroad, our first contribution being in the footwear industry. More recently, we have applied the same mechanical, chemical, fastener and service skills to the automotive, rubber, plastics, electronics, construction and other growth industries.

To apply our technical and marketing skills effectively toward our objectives, we have reshaped our organization into profit centers which are coordinated by a sound five-year plan and are motivated by both a management development program and an effective compensation system. This year, for the first time, we are providing a breakdown of USM's worldwide revenues and pre-tax earnings by our five major product groups.

To maintain the high caliber of our Board, at the September meeting, USM added Edward B. Hinman, who is president and chief executive officer of International Paper Company. We regret, however, losing the services of Harvey P. Hood whose retirement from our Board was effective in July, 1969.

At this writing it is very difficult to predict the timing or effect on USM domestic operations of either the slackening of the United States economy or the completion of the divestiture. Our diversification and international growth have created a balance which more than offset last year's poor results in the domestic shoe industry. Your company has never been in a stronger position in its 70-year history to share in the world's economic growth or to weather its downturns.

For the success of our efforts we look to the support of our more than 27,000 employees all over the world and ask for their continued help.

William S. Brewster

William S. Brewster
Chairman and
Chief Executive Officer

Herbert W. Jarvis

Herbert W. Jarvis
President

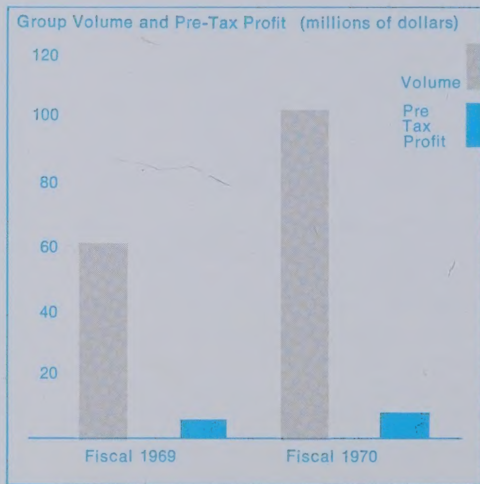
April 24, 1970

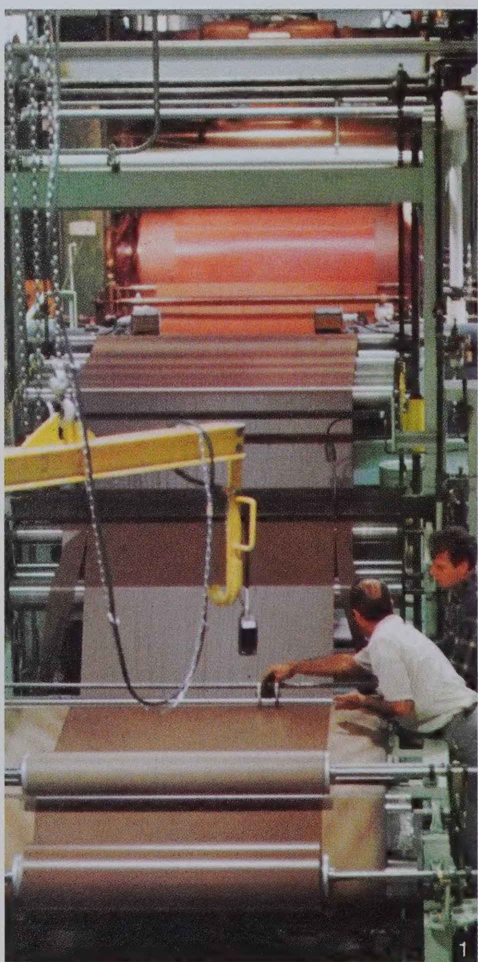
Capital Equipment Group

1. A complete vinyl calendering line designed and produced by Farrel is in use at Hooker Chemical's Ruco Division plant in New Jersey.

2. Plastic traffic markers in the United Kingdom produced by our subsidiary John Orme Ltd. use specially developed plastics by the USM Bostik company in Great Britain.

3. This Farrel Continuous Mixer is the largest of six models. Automatic controls proportion and feed ingredients to the mixer, monitor the process and adjust the variable elements to maintain optimum production.





In the heavy machinery area, advances have been made on a worldwide basis. Pre-tax profits for the group were $6,991,000 on volume of $101,557,000. This compares with profits of $5,218,000 on volume of $61,192,000 for the previous year (which included only seven months' results of Farrel). In our Farrel Company Division, orders exceeded shipments during the year. The backlog, which at year end reached a record level, resulted from heavy volume of new orders for rubber and plastics processing machinery including injection molding equipment. Orders were also booked for the sugar, paper and metal industries.

Several major plant expansions have been undertaken to meet the growing demand for Farrel products. In a move to expand the company's industrial plastics machinery operations in this country, responsibility for all USM's plastics converting machinery was made a part of the Farrel operations. Under the new alignment, the Lombard Plastics Machinery and Standard Tool Company Divisions are now part of our Farrel operations.

The plastics industry continues to be a major area of growth in USM's capital equipment operations. A new type of large-scale Farrel Continuous Mixer—the size 15—was put into operation during the past year, and additional orders have been booked. These machines have the capacity of producing 30,000 or more pounds per hour of polyethylene with comparably high production rates for other plastic compounds.

The first order for a new intermediate size Banbury mixer was received by Pomini Farrel in Italy. Based on the preliminary engineering designs made by Farrel, it further rounds out the Banbury lines in sizes suited for customer needs in European markets. A new line of 75-ton plastics injection molding machines was successfully introduced during the year and another new line of 125-ton injection molding machines is now in production for

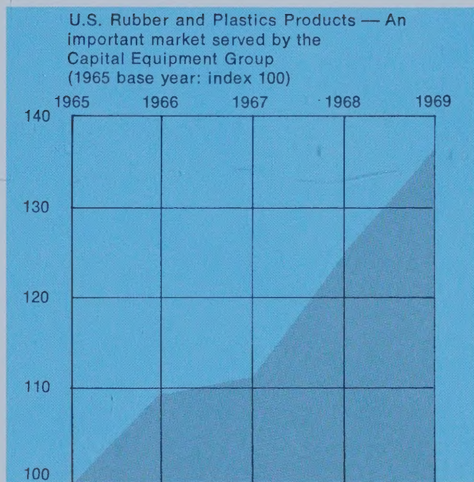
availability in 1970. Our Beverly facilities are producing these machines.

Farrel's Italian licensee for roll grinders and roll lathes, S.P.A. Giustina of Torino, Italy, brought out a new traveling table roll grinder for the European market. Close cooperation also exists with the Turner and Orme Companies in the United Kingdom.

Samco-Strong's success throughout the U.K. in two major product lines — cutting presses and molding presses — has resulted in plans to introduce this equipment in the U.S. Primary markets will include apparel, furniture, automotive and graphic arts.

Several research products are expected to result in commercial orders during the coming year. These include a method of introducing fiber glass and other reinforcing materials in injection moldings. In addition, so-called "adaptive controls" utilizing integrated circuits are being developed for injection molding machines. These controls measure machine performance and automatically make programmed corrections. We expect to coordinate the efforts of our new electronic control companies with our system requirements to develop more computer controls in the future. More information on them will be found in the Special Products section.

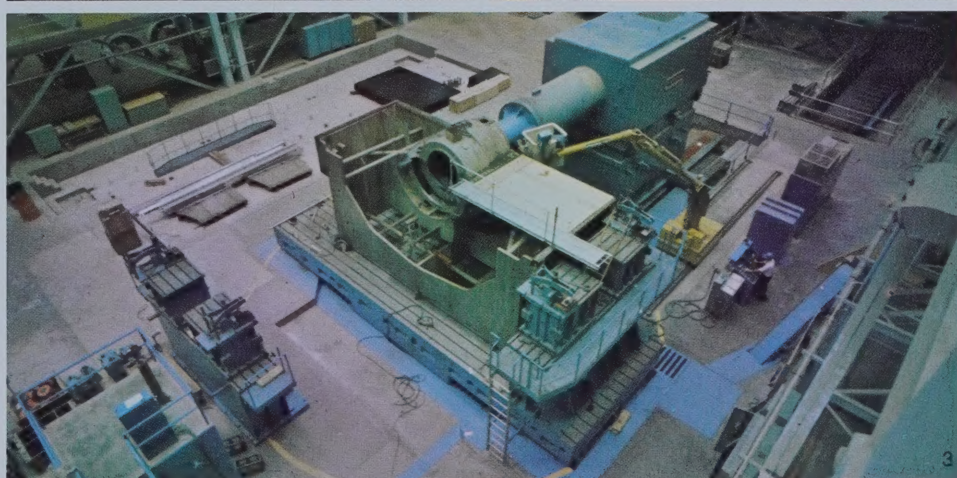
Additional progress has been made in the development of thermoplastic foam molding, combining lightweight uniform cellular structure with rigid surfaces which can be finished to simulate high-cost furniture and other products.



1. A Samco-Strong electronically-controlled hydraulic press with a multi-cavity die is used by Buxton, Inc. to automatically cut multiple plies of leather for wallets.

2. USM-developed rigid foam plastic is being adopted by the furniture industry to produce detailed patterns such as the door on this demonstration cabinet.

3. A giant Farrel machining center at General Electric's new steam turbine plant near Charleston, S. C. performs multiple operations on turbine hood components.



Chemical Group

Pre-tax profits for the Chemical Group in fiscal 1970 were $5,715,000 on revenues of $72,782,000. This compares with profits of $6,070,000 and revenues of $62,030,000 the previous year.

Although diversification has greatly reduced the dependence of our chemical group on the shoe industry, footwear is still the single largest market for USM chemical products in this country. As a result, the reduction in domestic shoe production this past year had a significant adverse effect on a large portion of our USM activities. However, the company's worldwide research and marketing activities are designed to further extend our diversification into new market areas.

New adhesive formulations have enabled USM to offer a bonding agent for use in the manufacture of vinyl-to-wood laminates that are used in the construction industry and furniture manufacturing. Both markets are expanding since these laminates reduce labor costs and provide an excellent replacement for scarce and costly quality wood veneers.

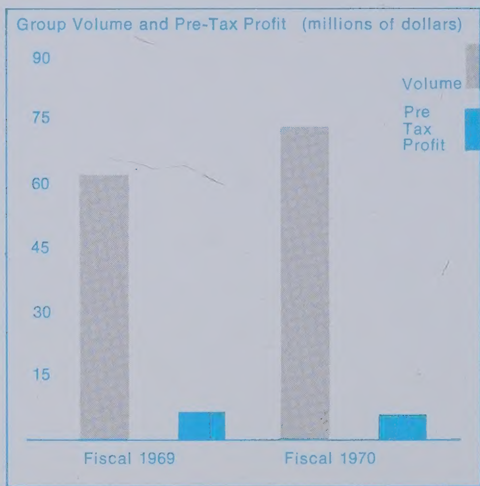
Thermogrip 5000, web-like thermoplastic hot-melt adhesive, is gaining greater acceptance in industrial and consumer apparel uses. This adhesive is marketed at retail outlets under the "Stitch Witchery" trademark. In the automotive industry, it is being used to bond fabric to a foamed backer in order to simulate embossed stitch design and retain the fabric feel. Development work in the chemical field is underway for reinforcing and assembling operations on men's and women's apparel by adhesive bonding to replace stitching. Increasing applications for USM's adhesives are being found in the aircraft industry, and new types of high-strength adhesives are under study in the chemical laboratories looking toward the long-term requirements of this industry.

Through acquisitions, USM has added facilities, technical resources and marketing organizations to penetrate

1. One of the new reactors in the recently completed 40,000 sq. ft. polymer plant now in operation at our Chemical Division in Middleton, Mass. This will nearly double polymer production capacity.

2. Many high-speed case sealing operations such as the one pictured at Kellogg Company in Battle Creek, Mich., depend on the instant setting characteristics of USM Thermogrip hot-melt adhesive.

3. Pigments produced by Crown-Metro are used by M. Lowenstein & Sons' plants in Lyman and Rock Hill, S. C.—the world's largest textile printing operations.

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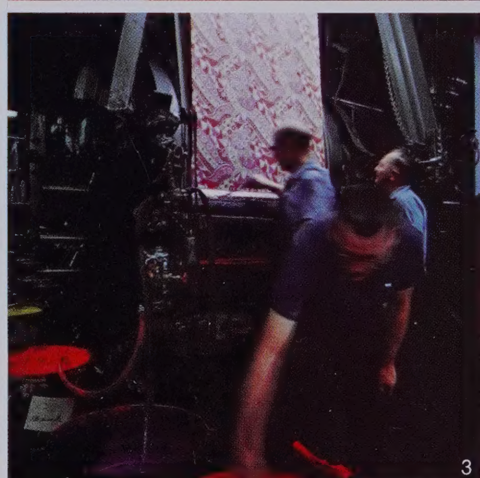
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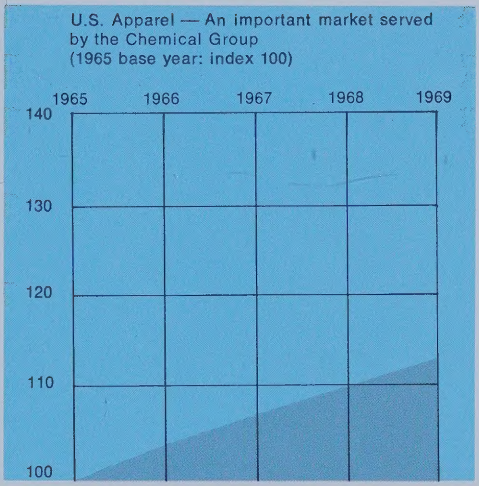
new markets and provide better services to customers. One of the highlights of our program was the acquisition of Crown-Metro, Inc. of Providence, R. I. This firm produces a specialized line of chemical products for the textile industry including pigment colors, soil release and permanent-press finishes and Cravenette water repellents.

The acquisition of Finch Paint & Chemical Co. provides USM with added technological capabilities in urethane coatings and an important new West Coast location. It will also open a new product growth market in the air transport industry which has become a major consumer of high performance specialty coatings.

The internal expansion of our new chemical manufacturing facilities at Middleton which were completed in October will permit us to seek new business outside the footwear area more aggressively.

Internationally, our chemical operations enjoyed a record year. Major contributions were from units in the Scandinavian countries and West Germany which manufacture and market a wide range of general industrial, construction and consumer products.

Construction will be completed by the middle of 1970 on an addition to our chemical complex at Oberursel, West Germany, for Solbit and other sealants. Solbit compounds are widely used by automotive manufacturers in Europe for bonding and sealing windshields and other glass in automobile bodies. Additionally, a new Bostik adhesive distribution company was established in Italy in anticipation of the growth forecast for the seventies.



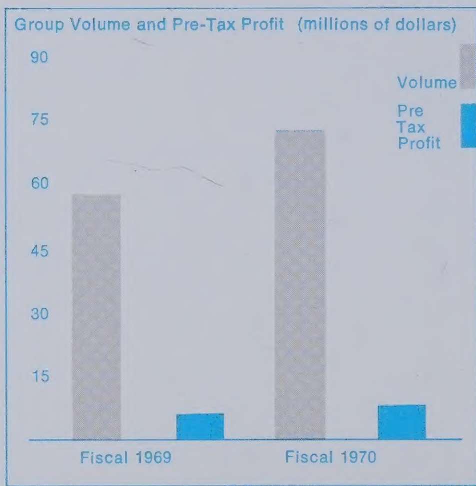
1. *Stitch Witchery, do-it-yourself version of new USM hot-melt adhesive, is used with a standard electric iron for stitchless home sewing: in hemming, applying zippers, attaching appliques and a number of other applications.*

2. *Our Solbit bonding system is used on this Opel assembly line in West Germany. A resistance wire embedded in rubber-like tape is electrically charged to heat the tape and produce a permanent, weathertight glass-to-metal seal.*

Fastener Group

1. Fasteners and a wide variety of stationery items are produced and marketed by the recently-acquired Meglaplas, now Tucker Products, Ltd.

2. Our Japanese fastener company is producing rivets for the expanding market in the Far East. Typical applications of USM "Pop" rivet fastening systems are these new signs being fabricated for the Expo '70 World's Fair.



Profits and revenues marked a new high in our Fastener Group. For fiscal 1970, pre-tax profits of $7,523,000 were realized compared with $5,975,000 for the previous year. Revenues for the two periods were $72,077,000 and $58,639,000 respectively. Substantial improvement was achieved in our domestic business. Greater penetration in selected markets and development of several new fastener products during the year provided USM with expanded marketing opportunities.

Parabolt fasteners, a new line of concrete anchors from the Molly Fastener Division, have been well received by the construction industry in the U. S. and will soon be manufactured in Europe. These drop-in anchors provide quick installation with a minimum amount of drilling.

A new plastic head fastener for the construction industry has been developed and introduced by our Parker-Kalon Fastener Division. This division has long specialized in producing fasteners for increased productivity in the automotive, sheet metal and plastics industries.

A more concentrated marketing approach has been organized in the U. S. for serving the construction industry through a series of mobile distribution units that bring to building sites complete lines of USM fasteners. The new marketing concept provides improved customer service and permits optimum methods of warehousing, transportation and technical service.

New fields were explored by the Warren Division to complement its already successful automotive business. They include large-sized stud-welding for the construction industry as well as improved methods of automated aluminum stud welding.

Warren continues to gain increased acceptance of its No-Hole stud-welding system which enables manufacturers to put trim on automotive bodies without drilling holes, a leading cause of body rust and corrosion. This stud-welding technique is now being mar-

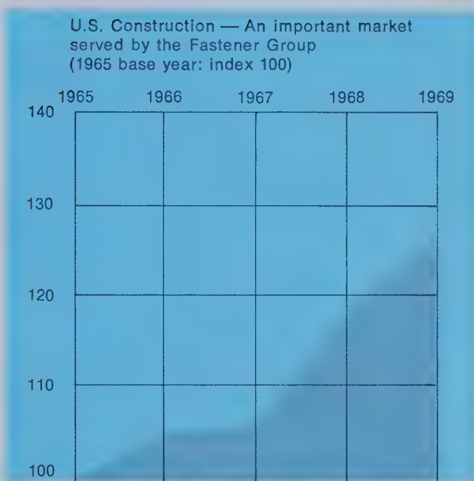
keted to appliance manufacturers as the growing number of new styles require increased application flexibility. In the international automotive area, Warren's systems have gained enthusiastic reception in the Japanese and West German markets.

Another USM fastener line enjoying international market growth is USM's Molly wall anchor which is widely used by the construction trades in the Scandinavian countries and in the Common Market.

Recently-acquired Meglaplas, Ltd. has been renamed Tucker Products Ltd. and is operating under the direction of our British subsidiary, Tucker Eyelet Co. Ltd. The new company manufactures fasteners, suspended file equipment and other components for the stationery industry.

Continued progress also has been registered in the acceptance of USM fasteners in the Far East marketplace. The new 13,000 sq. ft. Nippon "Pop" rivet plant in Japan is meeting the increased demand for rivets in the light metal industry in that country. Many "Pop" rivet applications were developed in connection with the Expo '70 World's Fair in Osaka. including fabrication of nearly all directional and metal promotional signs.

Nippon "Pop" Rivets and Fasteners, Ltd. has also introduced our Warren fastening system into the Japanese auto industry.



1. The growing leisure market for snowmobiles provides many new applications for USM fasteners. For example, these AMF Ski-Daddlers use "Pop" rivets on the hood assembly and main frame of the sleds and Molly anchors on the back seat.

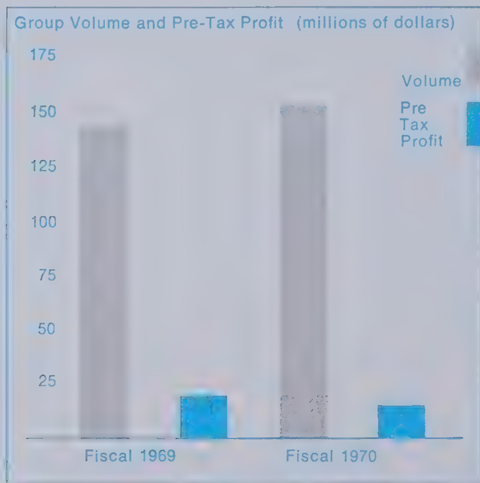
2. New electronic controls, an improved feeder mechanism and gun for stud-welding have been developed by USM's Warren Division.

3. Parabolt heavy-duty anchors are widely used in the construction industry.

1. *Numerically-controlled Dyna/Pert inserting machines are being used by the electronics industry for the automatic selection and insertion of integrated components into printed circuit boards.*

2. *Our new model thermocementing and folding machine which uses USM's Thermogrip hot-melt adhesives provides increased production for handbag manufacturers and other industrial customers.*

3. *A coordinated package including functionally-styled lasts, outsole units and related components is being offered to our Scandinavian footwear manufacturers.*

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Production Machinery and Related Supplies Group

USM's production machinery and related supplies profitability showed a decline for the year despite continued growth in our international markets. Our domestic machinery business was adversely affected by a poor year in the footwear industry combined with a strike at our Beverly factory. Our industrial markets outside the footwear area, however, realized a profit and volume improvement over the previous year. Pre-tax profit for the group amounted to $15,103,000 compared with $17,336,000 for the previous year. Volume was $152,274,000 against the previous year's $147,068,000.

In helping our customers increase their productivity and realize greater manufacturing efficiencies to meet their market demands, USM has developed a number of new products and systems.

A new multi-stage machine for simultaneously molding and attaching a lightweight urethane sole to footwear was introduced and will be field-tested this summer. This direct bottoming unit is the outgrowth of a joint development by USM shoe machinery and chemical specialists in the U. S. and the United Kingdom. The new system will provide footwear manufacturers throughout the world with a labor-saving system which produces a substantially improved product.

Another major technical advance has been the development of a computer scheduling system specifically designed for footwear manufacturing. Marketed as the "Factory Loading System," the USM development provides a computer service for footwear manufacturers to optimize their production capabilities. The USM system, through the use of computer terminals installed in the plant and connected to a remote computer through regular telephone outlets, may be used for producing detailed daily production schedules, forecasts and feasibility studies of sales commitments.

Another new concept is under

development by our subsidiaries in Denmark and Norway. Through standardization of contours of selected portions of lasts (the forms on which shoes are made), these USM subsidiaries have undertaken a program to provide footwear manufacturers with compatible shoe components in a wide range of styles. Provided in predetermined standard sizes and shapes are insoles, soles and counters. Through this approach, components such as counters may be cut with a minimum number of dies for men's and women's shoes — substantially reducing present inventory levels and production lead time and the cost of style changes.

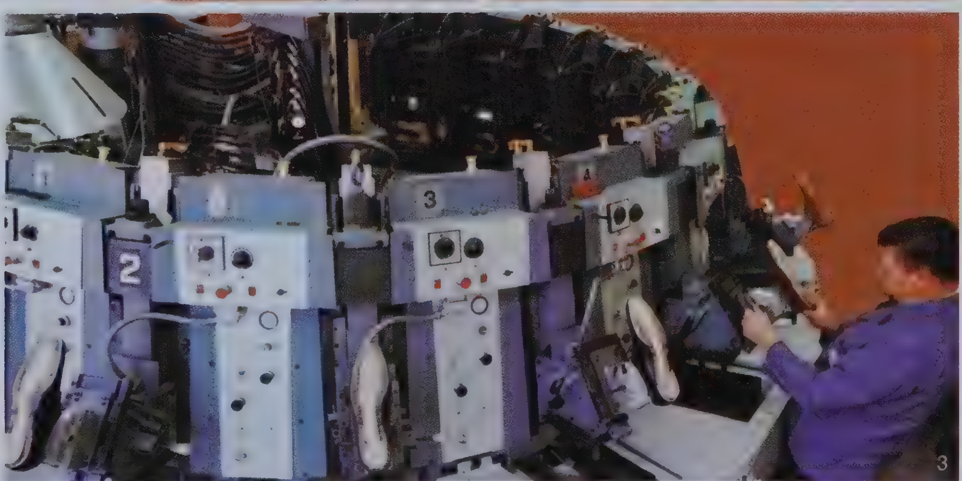
The domestic electronics industry has been one of the rapidly growing segments of USM business requiring specialized component inserting machinery such as our Dyna/Pert line for computers, household electronic appliances and other uses. To meet the increased demand for Dyna/Pert machinery, a new "white room" assembly facility at USM's Beverly plant has been established and is now on a full-time production basis.

As a result of our continuing program to broaden our product lines for the footwear industry, USM recently introduced a new type of insole material in Argentina, Brazil, Chile and Mexico.

1. Terminal at J. F. McElwain Co. in Nashua, N. H. uses a remote computer to generate data for a factory loading schedule. Field tests at several factories have shown greater efficiencies and production increases through this system.

2. A new five-axis numerically-controlled machining center has been installed at the Beverly plant. This unit matches the output of up to six operator-controlled machines.

3. This prototype of a urethane direct bottoming machine is a joint development by USM's machinery and chemical organizations in the U. S. and the U. K.



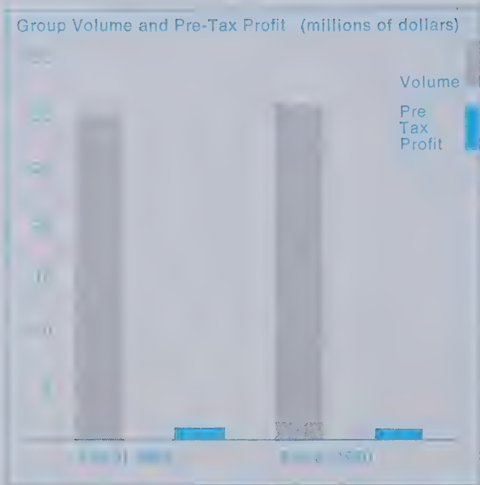
Special Products Group

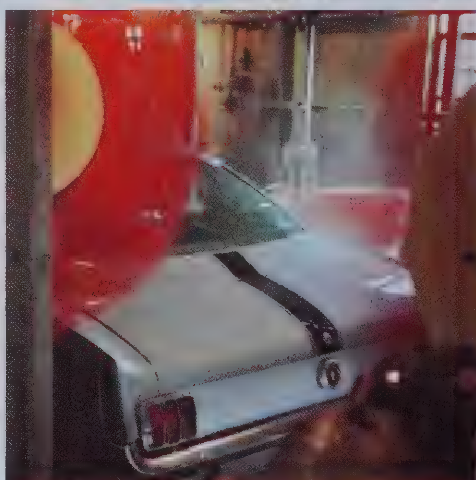
1. A new low-cost patch-type Nylok self-locking fastener has been introduced for licensing throughout the world as well as for manufacture by USM's Nylok units.

2. Automatic car washers are a new market for Felton brushes.

3. Automotive steering wheels and a variety of other plastic products are produced by our subsidiary, Elta Plastics Australia Pty. Ltd.

4. Hoague-Sprague's Glufit machine uses USM Thermogrip hot-melt adhesive for high-speed carton forming. Printed by our Converter Division, the box blanks in the foreground are made by Hoague-Sprague.





Pre-tax profits for USM's Special Products Group were $1,596,000 compared with the previous year's $1,753,000. Volume was $30,994,000 against $30,191,000 the year before. These figures do not include the losses in Spiras Systems, Inc., an unconsolidated company in our venture capital program which is being accounted for as an investment.

USM's special products activities span a broad range from capsules for transistors in the U. S. to automotive steering wheels in Australia. While in total they constitute a diverse group, they have been developed by profit centers which are logical outgrowths of our years of serving the footwear industry, or which have been acquired to serve new market areas of interest for USM — especially in systems applications.

Truelove & Maclean has expanded its facilities in Waterbury, Conn. to provide space for its steadily growing business in high quality metal stampings used in the cosmetic, electronics, medical, aeropace and automotive industries.

To complement our production machinery and capital equipment capabilities and to permit an integration of controls, we have established an electronic control operation composed of our Gear Systems Division and control companies mentioned in the Chairman's and President's letter. Spiras Systems, Inc. is a high-technology corporation engaged in the production of mini-computers and peripherals, cathode ray tube communications terminals, computer software and controls. Vibrac Corporation produces electro-optical torque measuring transducers, electromagnetic brakes and clutches, tachometer generators and associated control instrumentation. Schaeffer Magnetics, Inc. manufactures specialized long-life synchronous motors and aircraft actuating devices.

Another facet of the control operation is its contribution to USM's systems

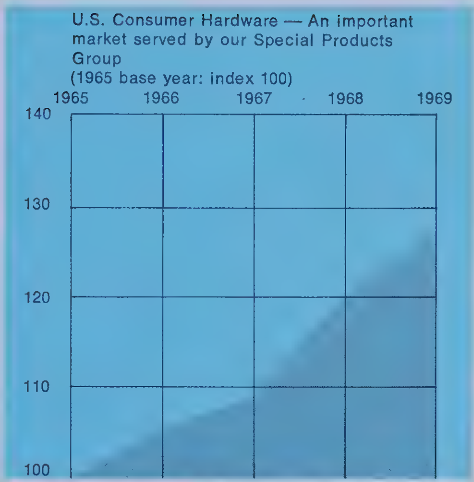
capability. Although each company has its own growth potential in widely diverse markets, together they are complementary within the control area. Spiras Systems provides the computer nucleus for electronic controls in future USM productivity systems.

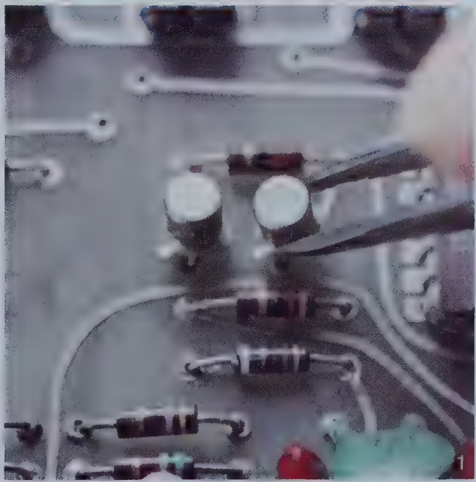
Actuation and instrumentation devices such as those produced by Gear Systems Division, Vibrac and Schaeffer will also be important components for these systems. The combined skills of the group will permit USM to move from man-operated machines to active and adaptive machine systems.

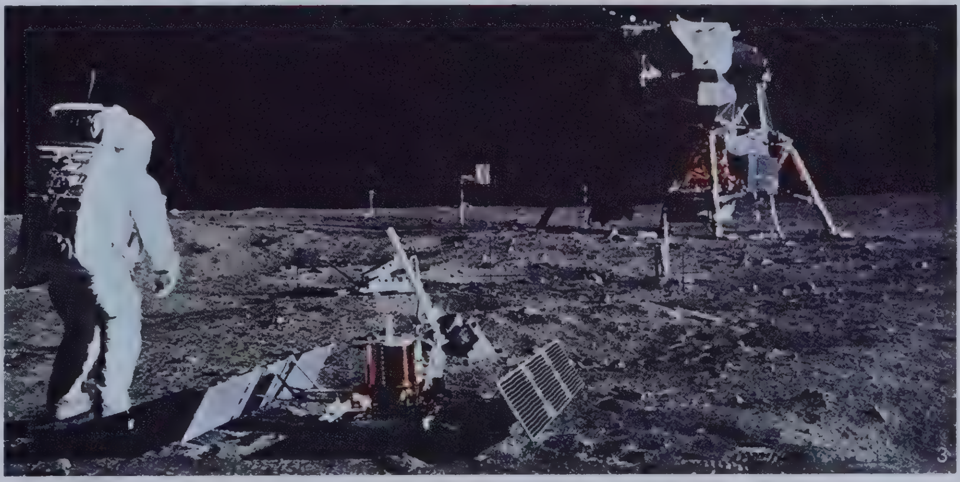
A significant advance in the fabrication area during the year has been the growth in customer acceptance of the box-forming system marketed in the U. S. by the Hoague-Sprague Division utilizing hot-melt adhesives. Increased productivity requiring only one operator is a major benefit resulting from this new system.

USM's subsidiary, S. A. Felton & Son Company, has experienced increased sales with a new line of brushes for car wash applications in the U. S. and Canada. Within the next two years, we expect this car wash business to become a significant part of Felton's volume. Felton has also had increased sales with its Ski-Track, a plastic brush-like surface used for downhill skiing, uphill surfaces under lift lines and heavily-used service areas.

Our Consumer Products Division was established as a profit center last year. Aimed primarily at the do-it-yourself hardware market, this new division markets our Thermogrip electric glue gun, "Pop" rivets and tools, Molly wall anchors, a tapeless rule for architects, builders and homeowners, and a new product, Reel-O-Wire, packaged in a unique dispenser. Marketing of our consumer products operates through national and local outlets with support by a national advertising program and new package designs appealing to the handyman.





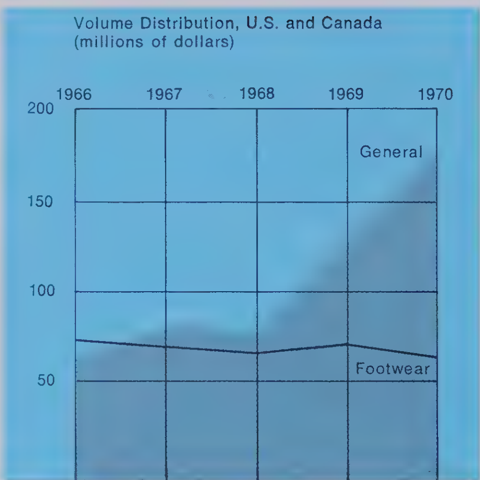


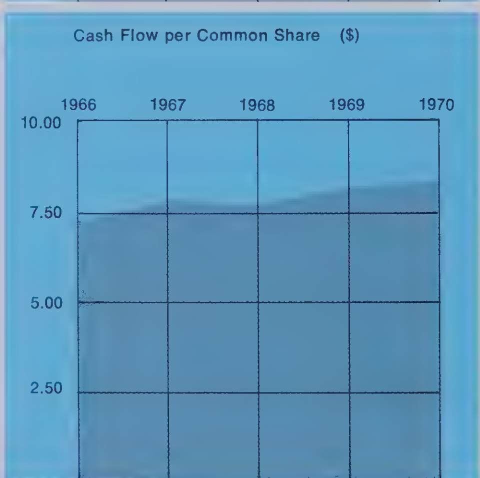
1. Precision metal electronic components such as the transistor encapsulations for this Spiras computer circuit board are produced by Truelove & Maclean, Inc.

2. Spiras 65 mini-computer is used in controlling radiation experiments at the University of Notre Dame.

3. USM's new electronic control group affiliates made important contributions to the Apollo moon programs. Vibrac Corporation magnetic clutches were in the radar antenna drive used in the recoveries and Schaeffer Magnetics, Inc. solenoids operated telemetric recorder units.

Financial Review





Earning Trend Continues
For fiscal 1970, USM's consolidated net income continued its upward trend reaching $18,597,000 or $3.62 per common share. This compares with fiscal 1969's restated $16,963,000 or $3.47 per common share. Results for the year include the operations of Crown-Metro Inc., Tucker Products Ltd., our interest in Vibrac Corporation and Schaeffer Magnetics, Inc., from dates of acquisition, and the Finch Paint & Chemical Co. on a pooling of interests basis. Spiras Systems, Inc. has been accounted for as an investment. The results of the Farrel Company Division are included for a full year as compared with seven months for the fiscal year ended February 28, 1969. One hundred per cent of the consolidated results of British United Shoe Machinery have been included since July 31, 1969, compared with 79.3 per cent last year.

Gross Revenues Reach New High
Consolidated gross revenues reached an all-time high of $429,684,000 for fiscal 1970, representing an increase of $70,564,000 or 20 per cent over the previous record last year.

Acquisition of British United Minority Interest
An offer for all the shares held by the minority interest in USM's largest foreign subsidiary, The British United Shoe Machinery Company, Ltd., was accepted by the minority shareowners on July 10, 1969, and was approved by the British Court shortly thereafter. The elimination of the minority interest did not have an appreciable effect on earnings for the year.

The offer, which was arranged jointly by USM and British United management, consisted of 9 per cent guaranteed loan stock (a form of debenture), due 1982, of a wholly-owned United Kingdom subsidiary of USM. The loan stock, which is payable in sterling, has a face value of approximately $34,000,000 at current rates of exchange and was issued with detachable warrants to purchase approximately 432,000 shares of USM common stock at $39 per share. The loan stock is guaranteed by USM.

New Acquisitions
USM's majority interest in Spiras Systems, Inc., Vibrac Corporation, and Schaeffer Magnetics, Inc., and its 100 per cent interest in Crown-Metro Inc., together represent an initial investment totalling approximately $15,500,000 in cash and 15,000 shares of USM common stock.

In addition, there is an $8,200,000 commitment to provide working capital for growth and a $3,500,000 supplementary payout, both contingent upon satisfactory profit performance.

USM acquired substantially all of the voting securities of Finch Paint & Chemical Co. in exchange for approximately 60,000 shares of USM common stock subject to the issuance of additional USM shares depending upon subsequent earnings of Finch and the future market value of USM stock. The acquisition has been treated as a pooling of interests.

The acquisition of the assets and business of The Bailey Company of Amesbury, Mass., in March, 1970, which will be treated for accounting purposes as a purchase, involved the payment of approximately 175,000 shares of USM common stock.

Capital Expenditures
During fiscal 1970, USM's capital expenditures were $36,383,000 including acquisitions. This compares with the previous year's figure of $26,578,000 which excluded the fixed assets acquired in the Farrel merger. The expenditures were divided as follows:

(000's omitted)

	1970	1969
USA and Canada	**$18,701**	$16,477
International	**17,682**	10,101
Total	**$36,383**	$26,578

Divestiture Negotiations
USM continues to discuss the divestiture of its two subsidiaries—Inter-Coastal Shoe Machinery Corporation and Transamerican Shoe Machinery Corporation—with potential purchasers. Under the Consent Decree, the company has until February 20, 1971, to complete the divestiture.

As stated earlier in the year, although the two subsidiaries generate about $10,000,000 annually in lease and sale revenues, the corresponding contribution to USM's net earnings cannot yet be determined. If a pro rata allocation of estimated costs and expenses is assumed, the contribution to net earnings would be about $900,000. Management recognizes that divestiture will probably not result in a pro rata reduction in costs and expenses; therefore, such a pro forma net earnings figure may significantly understate the initial impact on the company's earnings.

Moreover, the terms of the divestiture, the nature, amount and use of the proceeds to be received, the effect on USM's retained operations and expenses and various other factors are not yet known. Accordingly, the financial effect of the divestiture on USM and its shareowners cannot now be determined. It is management's objective to complete the divestiture in the best interests of its shareowners and, if possible, to acquire replacement assets with growth potential.

Foreign Financing
In addition to the financing for the acquisition of the British United minority shares referred to earlier in this report, we arranged in December 1969, for approximately $7,200,000 of short-term borrowing with European banks. By using these long-established contacts, we obtained funds at a lower interest cost than comparable U.S. loans, and we also obtained greater flexibility for our balance of payments planning. As a result of this new financing, our foreign debt is more in line with our international investments.

Domestic Financing
On April 30, 1969, we entered into a revolving credit agreement with four banks which provides for borrowing up to $12,000,000 for a two-year period at the prime rate. We also have other available lines of domestic bank credit in excess of $10,000,000 to cover our fluctuating needs for working capital. At February 28, 1970, we had borrowed $6,600,000 of the revolving credit funds and $8,900,000 from the other lines.

Foreign Exchange
During the year, the French franc was devalued from approximately 4.94 to the dollar to 5.55 to the dollar, and the West German mark was revalued from 4.00 to the dollar to 3.66 to the dollar. In Latin America, although the situation was improved in Argentina, there were continuing devaluations in Chile and Brazil. These fluctuations were charged or credited to the reserve for foreign operations. The devaluations and revaluations will have an insignificant effect on future net income.

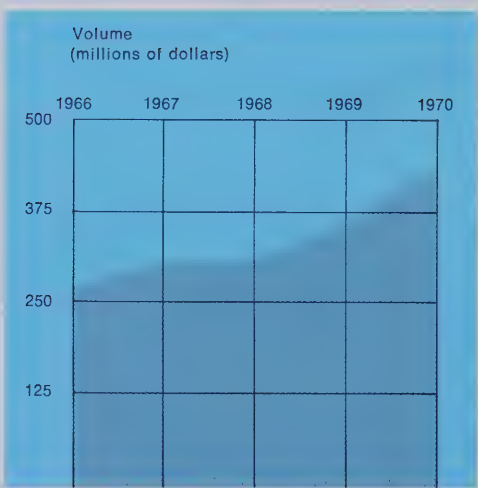
Purchase of USM Securities
The USM Board has authorized the purchase by USM of outstanding securities of the Corporation, including stock, warrants and debentures, in accordance with applicable legal and exchange requirements from time to time at prevailing market prices, either on or off the market.

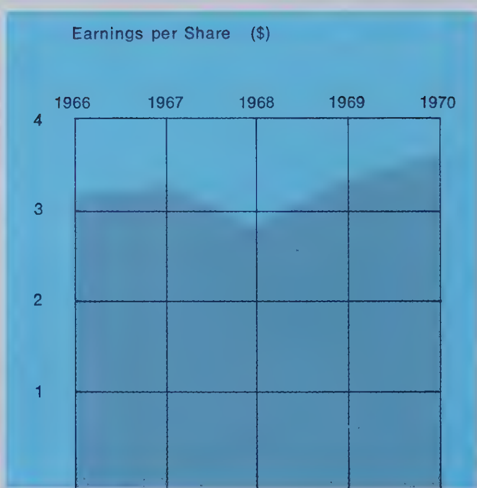
Summary of International Operations [1]

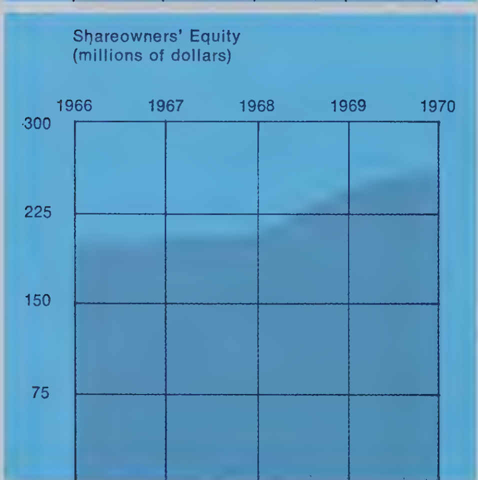
(000's omitted)	Fiscal Year	British Group	Continental Europe	Latin America & Other	Total
Volume of Business	**1970**	**$ 96,028**	**$ 79,415**	**$ 10,168**	**$185,611**
	1969	84,295	66,546	9,463	160,304
Equity in Net Assets	**1970**	**61,313**	**34,006**	**4,199**	**98,262** [2]
	1969	56,999	30,864	5,285	91,389 [2]
Equity in Net Income	**1970**	**6,215**	**4,257**	**991**	**9,934** [3]
	1969	6,446	2,331	397	7,526 [3]
Dividends (Net)	**1970**	**3,485**	**1,486**	**195**	**5,166**
	1969	3,129	1,760	225	5,114
Number of Employees	**1970**	**11,287**	**4,589**	**863**	**16,739**
	1969	10,474	4,218	880	15,572

(1) This data reported according to management responsibility.
(2) These totals reflect the unallocated reserve for foreign operations.
(3) These totals reflect equity in net income after dividend withholding taxes, charges against income for reserve accounts and other miscellaneous expenses attributable to the International Area.

Corporate Review







Corporate Operations

A new Operations Department, reporting directly to the president, has been established at the vice president level. This staff function is to provide increased corporate management involvement in the attainment of corporate long-range goals while improving profitability from present operations.

Prime efforts are focussed on: lower production cost by rationalization of production between existing corporate facilities, maximization of product development capabilities, cash generation through more effective control of working capital requirements, improved earnings through improved profit margins and priority selection of investments. This increased corporate involvement in USM's operations, coupled with the company's newly established compensation program, geared to reward managers for better asset utilization, will provide greater emphasis on realizing maximum return on shareowners' investment.

Corporate Systems

Systems for industry are not new, but recent developments in logic circuits, man-machine interfacing and computers for control have opened a new era of systems for industry. Computers and controls, in particular, have permitted degrees of automation for rapid changes and flexible production setups which only a few years ago were not thought possible.

The application of these new technologies has come at a time to counter the present leveling off in productivity growth. The traditional combination of man, machinery and controls has needed a new approach. At USM this new approach is known as the "USM Productivity System".

To carry out Productivity Systems, USM has developed a new type of organization for industry — the combination of Marketing and Research called Corporate Systems. Its objective is to shorten the time from research to a profit phase with market-

ing input established at the inception of any new program. In addition to the new corporate systems organization, USM has established a new entrepreneurial program to encompass those areas that do not fit existing operating units. These new organizational concepts should place USM in a more favorable competitive position for all future productivity system development.

Corporate Development
Recognizing the need to relate our growth objectives to our manpower development program and to adopt new systems and procedures as organizational changes occur through internal expansion and acquisition, we established a new staff department entitled Corporate Development. It integrates the functions of corporate planning, industrial relations, management information systems and acquisition strategy.

As a result of our organization and manpower planning and development activities, 111 executives were promoted during the year to positions of greater responsibility, or rotated for development and training. A total of 767 participants spent 12,500 man-hours participating in in-house seminars on management and technical subjects. An additional 10,900 man-hours were spent by 287 executives attending courses and seminars conducted by organizations such as Harvard, M.I.T., The American Management Association, The National Industrial Conference Board and the Machinery & Allied Products Institute.

Labor Relations
USM's labor relations in fiscal 1970 were virtually unmarred except for the 13 working-day walkout by members of the United Electrical, Radio and Machine Workers of America (UE) at the company's Machinery Division at Beverly, Mass. The issue centered on the UE's refusal to work on parts destined for General Electric under a contract which USM had signed with GE long before the GE strike began. As a result of unfair labor practice charges filed by USM contending that the strike was an illegal secondary boycott, the National Labor Relations Board asked the United States District Court at Boston to enjoin the strike. When faced with the possibility of Court action, USM's striking employees voted overwhelmingly to return to work under the same conditions that prevailed prior to the walkout.

Insurance and Fringe Benefits
A new worldwide insurance program including the protection of all USM assets was adopted by USM in June 1969. This policy, the first of its kind written for a U.S. corporation, provides all-risk protection and is in concert with like agreements providing casualty, fidelity and crime coverages and the option to bring into the program worldwide employee benefits coverage.

Through this arrangement, USM Corporation can readily coordinate employee benefits across international boundaries and ease the problems of personnel transfers as the corporation's international growth dictates.

From a financial point of view, the total insurance buying power of USM is made available on a worldwide basis to all profit centers and results in significant cost reductions.

Equal Employment Opportunity
During the year, USM's domestic units continued development of their plans of affirmative action to assure equal employment opportunity for all. These become a part of each unit's operating plan, and achievement of their objective is a significant factor in measuring executive performance.

Environment Program
USM's corporate policy has always been to meet or exceed the pollution control standards of the communities in which the corporation operates. USM's current standards, which have recently been even further improved, call for the disposal of all waste in a manner that will avoid any contamination of the environment at the company's present and future facilities. The new program will be implemented as rapidly as technical solutions to existing problems become available. A corporate staff function has been charged with the responsibility of coordinating this effort and assisting in the planning and execution of the corrective or preventive action required by each operating unit to meet the new environmental standards.

Consolidated Balance Sheets

Assets

Current assets: February 28	1970	1969
Cash	$ **8,728,000**	$ 10,969,000
Short-term investments at cost, which approximates market	**16,686,000**	20,694,000
Accounts and notes receivable, less allowances for doubtful accounts of $2,741,000 and $2,155,000	**81,564,000**	69,487,000
Inventories at lower of average cost or market:		
Raw materials	**24,252,000**	19,312,000
Merchandise in process	**39,869,000**	33,531,000
Finished merchandise	**59,966,000**	54,035,000
	124,087,000	106,878,000
Total current assets	**231,065,000**	208,028,000
Leased machinery at cost, less allowances for depreciation of $54,742,000 and $56,520,000 and machines and parts on hand at cost $24,834,000 and $20,992,000 (note C)	**70,869,000**	67,914,000
Property, plant and equipment at cost:		
Land and buildings	**67,977,000**	63,799,000
Manufacturing machinery, tools and equipment	**117,157,000**	108,855,000
Vehicles, furniture and fixtures	**16,808,000**	15,205,000
Unfinished construction	**3,928,000**	4,264,000
	205,870,000	192,123,000
Less allowances for depreciation (note C)	**108,757,000**	103,276,000
	97,113,000	88,847,000
Other investments (note A)	**13,821,000**	4,757,000
Goodwill, patent rights and other intangibles at cost less amortization of $1,692,000 and $1,332,000 (note A)	**31,825,000**	8,580,000
Deferred charges and other assets	**16,987,000**	9,431,000
	$461,680,000	$387,557,000

The accompanying notes are an integral part of the financial statements.

	February 28	1970	1969
Liabilities			
Current liabilities:			
Notes and loans payable to banks		$ 28,436,000	$ 6,326,000
Accounts payable, trade		27,760,000	24,750,000
United States and foreign income taxes		19,016,000	16,581,000
Accrued expenses and other liabilities		19,038,000	15,542,000
Total current liabilities		94,250,000	63,199,000
Long-term debt (note D):			
5¾% sinking fund debentures due 1992		23,750,000	25,000,000
5½% loan payable		13,920,000	13,920,000
9% guaranteed loan stock due 1982		33,711,000	—
Notes and mortgages less current maturities		9,292,000	2,068,000
Total long-term debt		80,673,000	40,988,000
Provisions for pensions (note E)		8,793,000	7,852,000
Reserve for foreign operations (note A)		1,256,000	1,759,000
Deferred income taxes (note F)		9,469,000	5,730,000
Other noncurrent liabilities		2,982,000	2,666,000
Minority interest (note A)		2,248,000	17,936,000
Litigation and contingent liabilities (note G)			
Shareowners' Equity			
Capital stock:			
Preferred, 6% cumulative, par value $25 per share, authorized 600,000 shares; issued 423,908 shares (note H)		10,598,000	10,598,000
Convertible preference, $2.10 series, cumulative, without par value, authorized 778,800 shares, outstanding 1970, 730,905 shares; 1969, 772,609 shares (notes H and K)		36,545,000	38,630,000
Preference, without par value, authorized 600,000 shares (note H)			
Common, par value $12.50 per share, authorized 10,000,000 shares; issued in 1970, 4,849,346 shares; in 1969, 4,800,046 shares (notes A, I and K)		60,617,000	60,000,000
Additional paid-in capital (note K)		5,802,000	467,000
Retained earnings (note D)		163,148,000	153,851,000
		276,710,000	263,546,000
Less cost of shares in treasury Preferred: 1970, 223,908; 1969, 222,892 shares Common: 1970, 207,784; 1969, 252,404 shares		14,701,000	16,119,000
Total shareowners' equity		262,009,000	247,427,000
		$461,680,000	$387,557,000

Consolidated Statements of Income and Retained Earnings

For fiscal years ended February 28	**1970**	1969
Gross revenues:		
Sales and other operating income	**$384,902,000**	$314,443,000
Leased machinery revenue	**44,782,000**	44,677,000
	429,684,000	359,120,000
Cost and expenses (note C):		
Cost of sales	**261,143,000**	206,098,000
Cost of leased machinery operations	**17,704,000**	18,088,000
Selling and administrative	**97,481,000**	86,451,000
Research and development	**13,277,000**	11,939,000
	389,605,000	322,576,000
Operating income	**40,079,000**	36,544,000
Interest expense	**(5,401,000)**	(2,248,000)
Other income less other charges	**2,250,000**	2,056,000
Income before income taxes	**36,928,000**	36,352,000
Provision for United States and foreign income taxes (note F)	**17,217,000**	17,470,000
Income before minority interest	**19,711,000**	18,882,000
Minority interest (note A)	**1,114,000**	1,919,000
Net income	**18,597,000**	16,963,000
Retained earnings at beginning of year (note A)	**153,851,000**	144,721,000
Retained earnings of pooled company (note A)	**76,000**	—
	172,524,000	161,684,000
Cash dividends paid, including, in 1969, $519,000 paid to Farrel stockholders between August 1, and December 31, 1968 (preferred $1.50 per share; convertible preference $2.10 series, $2.10 per share in 1970 and $0.11 per share in 1969; common $1.60 per share in 1970 and $1.55 per share in 1969)	**9,164,000**	7,833,000
Excess of cost over par value of re-acquired shares retired	**212,000**	—
	9,376,000	7,833,000
Retained earnings at end of year (note D)	**$163,148,000**	$153,851,000
Earnings per common share (note J)	**$3.62**	$3.47
Earnings per common share — assuming full dilution (note J)	**$3.32**	$3.31

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Source and Use of Funds

For fiscal years ended February 28	1970	1969
Source:		
Net income	**$ 18,597,000**	$ 16,963,000
Depreciation and amortization (note C):		
Leased machinery	**10,760,000**	11,562,000
Property, plant and equipment	**9,718,000**	8,759,000
Intangible assets	**393,000**	497,000
Increase in deferred income taxes (note F):		
Non-current	**3,739,000**	1,826,000
Current	**(2,440,000)**	(1,177,000)
Funds provided from operations	**40,767,000**	38,430,000
Fixed assets sold or retired, less accumulated depreciation:		
Leased machinery	**3,688,000**	4,837,000
Property, plant and equipment	**996,000**	1,276,000
Increase in current liabilities	**31,051,000**	4,936,000
Issue of long-term debt (note D)	**33,711,000**	13,920,000
Increase in notes and mortgages (note D)	**7,224,000**	(706,000)
Issue of convertible preference stock	—	38,940,000
Stock issued for options and acquisitions (note K)	**2,517,000**	3,815,000
All other sources	**3,749,000**	1,715,000
Total	**$123,703,000**	$107,163,000

Use:		
Farrel net assets (excluding cash) as of August 1, 1968		$ 36,186,000
Property, plant and equipment	**$ 18,980,000**	12,966,000
Leased machinery:		
Machines shipped	**13,370,000**	14,898,000
On hand and in process	**4,033,000**	(1,286,000)
Increase in accounts receivable	**12,077,000**	10,737,000
Increase in inventories	**17,209,000**	5,146,000
Increase in intangibles (note A)	**23,654,000**	1,460,000
Increase in other investments (note A)	**9,064,000**	(360,000)
Decrease in minority interest (note A)	**15,688,000**	(755,000)
Dividends paid	**9,164,000**	7,833,000
Purchase of 5¾% debentures (note D)	**1,250,000**	—
Purchase of treasury stock	**1,038,000**	4,998,000
Hanover litigation settlement — net	—	2,862,000
All other uses	**4,425,000**	3,740,000
Total	**$129,952,000**	$ 98,425,000
Increase (Decrease) in cash and short-term investments	**$ (6,249,000)**	$ 8,738,000

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

A. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all majority-controlled subsidiaries, after elimination of intercompany transactions. The undistributed earnings of foreign subsidiaries are substantially reinvested in countries of origin. The excess of the purchase price of acquired subsidiaries over the value ascribed to the net assets at the date of acquisition is included in goodwill and is not being amortized except where management determines that the life of this intangible asset is limited.

A reserve for foreign operations is provided by an annual charge to income which amounted to $200,000 in 1970 and $400,000 in 1969. Unrealized gains and losses from minor fluctuations in exchange rates and certain contingencies of foreign operations are credited or charged to this reserve. In fiscal 1970, the excess of the French franc devaluation over the revaluation of the West German mark was charged to the reserve. See page 15 for Summary of International Operations.

In fiscal 1970, the company acquired approximately 69% of the common stock of Spiras Systems, Inc. at a cost of $5,758,000 and purchased $3,371,000 of its 10% convertible notes maturing at various dates from June, 1979 to February, 1980. The notes are convertible into Spiras stock at prices ranging from $10.00 to $34.26 per share. Under the terms of the agreement, the company may be required to purchase additional convertible notes of up to approximately $5,629,000 contingent upon the results of the operations of Spiras since acquisition. Spiras, whose accounts are not consolidated with those of the company, had a net worth deficit at February 28, 1970, of $1,790,000, of which the company's share was $1,225,000. At that date, the company's investment in the stock, which is carried at cost, exceeded its equity in the net assets of Spiras by $6,983,000. The company's equity in the net loss of Spiras for the eight months ended February 28, 1970 was $731,000. The company's investment has not been reduced because the impairment of the value, if any, is considered by management to be temporary.

On July 31, 1969, the company acquired the minority interest of The British United Shoe Machinery Company, Limited in exchange for 9% guaranteed loan stock of a wholly-owned United Kingdom subsidiary, with detachable warrants to purchase USM common stock. See note D for further details on this matter. This transaction has been accounted for as a purchase and the excess of the purchase price over the book value of the assets, approximately $18,400,000, has been included in goodwill.

Pursuant to agreements entered into during the year, the company acquired substantially all of the voting securities of Finch Paint & Chemical Co. in exchange for approximately 60,000 shares of USM common stock. Under the terms of the agreements, the company may be required to issue up to a maximum of 307,653 shares of USM common stock based on subsequent earnings of Finch and the future market value of USM common stock. This transaction has been accounted for as a pooling of interests as if consummated on March 1, 1968. Accordingly, common stock at March 1, 1968 has been increased by $760,000 and retained earnings and additional paid-in capital at that date have been decreased by $50,000 and $56,000.

The acquisition of one domestic subsidiary in April 1969, in exchange for 10,000 shares of USM treasury common stock, has been treated as a pooling of interests, but has not been reflected retroactively in the accompanying consolidated financial statements since it would not have a material effect on reported financial position and results of operations.

In addition, during fiscal 1970, the company acquired a controlling interest in three international and three domestic businesses for cash and 15,000 shares of treasury common stock. The results of operations of these businesses have been included in the accompanying consolidated financial statements from their respective dates of acquisition.

In March 1970, the company acquired the assets and business of The Bailey Company, Incorporated, in exchange for approximately 175,000 shares of USM common stock. This transaction will be accounted for as a purchase.

B. Divestiture

On February 20, 1969, the company's antitrust suit concluded in a Consent Decree in which the company agreed, among other things, to divest itself within two years of shoe machines, manufacturing assets, and certain patents for shoe machine models producing an aggregate of $8,500,000 in annual domestic gross revenues from lease and sale of shoe machinery in fiscal 1968.

The financial effect, if any, of this divestiture cannot presently be determined because the terms, proceeds, ancillary operations and related costs, and other features are unknown. See page 15 for further details on this matter.

C. Depreciation Policy

Depreciation and amortization of $20,871,000 in 1970 and $20,818,000 in 1969 are included in costs and expenses. Provisions for depreciation are calculated on a straight-line basis; accelerated depreciation methods are used for tax purposes.

D. Long-Term Debt

The 5¾% debentures are redeemable through purchase at prices decreasing from 104.98% of face value currently to 100% in 1988, or sinking fund redemptions of $1,250,000 to $2,500,000 on June 15, 1973 and on each June 15, thereafter, at 100% of face value. During the year, debentures with a face value of $1,250,000 were reacquired by the company, and will be held to satisfy the 1973 sinking fund requirement. The indenture contains restrictive covenants which provide, among other things, for certain restrictions on the payment of cash dividends or acquisition of common stock. The amount of consolidated retained earnings free of such restrictions at February 28, 1970 was approximately $32,302,000.

The 5½% loan payable of USM International Finance Corporation, a wholly-owned subsidiary, guaranteed in full by the company, is payable in five annual installments of 12,000,000 Swiss francs (currently approximately $2,784,000) from 1980 to 1984. The subsidiary has the option to prepay the installments at prices decreasing from 104% of par value in 1972 to 101% in 1979.

In connection with the acquisition of the minority interest of The British United Shoe Machinery Company, Limited (see note A), USMC International Limited, issued 9% guaranteed loan stock due 1982, having a face value of £14,046,250 ($33,711,000), payable in sterling, with detachable warrants to purchase 432,203 shares of USM common stock at $39 per share payable in U.S. dollars. The warrants may be exercised with cash payment through July 24, 1982. On or after July 31, 1972, a holder of the warrants may tender shares of the loan stock towards satisfaction of the purchase price. The purchase price and the number of shares issuable upon exercise of the warrants are subject to antidilution provisions. The loan stock is guaranteed in full by the company.

Included in notes and mortgages are $6,600,000 of notes payable under a revolving credit agreement which expires on April 30, 1971. Under the terms of the agreement, the company may borrow up to $12,000,000 with interest fixed at the prime rate. This agreement contains restrictive covenants which provide, among other things, for the maintenance of consolidated working capital of at least $75,000,000. Also included are a $1,000,000 6% note, payable by a subsidiary in installments from 1971-1982 and miscellaneous long-term notes and mortgages, approximating $1,686,000 payable 1971-1981 at interest rates ranging from 5.0% to 8.5%.

E. Pensions

The company's pension plans cover substantially all of its international and domestic employees. Charges to income for the cost of these plans amounted to approximately $8,500,000 in 1970 and $7,600,000 in 1969. Costs accrued are funded in the United States and some of the international subsidiaries. At February 28, 1970 the unaccrued past service costs, estimated at approximately $41,000,000, are being amortized over a 25-year period, except that certain international subsidiaries have adopted shorter periods.

The actuarially computed value of vested benefits, as of the fiscal 1970 valuation date, exceeded the total of the pension funds and balance sheet accruals by approximately $11,000,000, for all domestic plans except one, wherein the amounts funded and accrued exceeded the vested benefits by approximately $3,500,000.

F. Provisions for Income Taxes

The investment tax credit and comparable foreign investment allowances totaling $352,000 in 1970 and $326,000 in 1969 have been applied in the reduction of income tax expense. United Kingdom investment grants and other foreign investment incentives not related to income tax expense, totaling $415,000 in 1970 and $562,000 in 1969 net of related tax effect, have been credited to other income.

Deferred income taxes arise principally from the use of accelerated depreciation for tax purposes.

G. Litigation and Contingent Liabilities

In connection with the patents under which Farrel manufactures Swimming Rolls, Beloit Corporation has brought a declaratory judgment action against Farrel and its licensor, Edward Kusters of Krefeld, Germany, in the United States District Court for the Southern District of New York. In this action, Beloit seeks a declaration that the two patents licensed to Farrel are invalid and unenforceable and that Beloit does not infringe either of these patents. Kusters and Farrel have counterclaimed alleging infringement of both patents and seeking an injunction prohibiting future infringement and damages for past infringements. During this action, Beloit-Kleinewefers Textile Machinery Corporation has been joined as an intervenor-plaintiff, seeking the same relief as Beloit. Kusters and Farrel have also filed a similar counterclaim against Beloit-Kleinewefers. The financial effect of this action, if any, upon the company, is not determinable at this time.

The outcome of the company's efforts to recover approximately $11,300,000 of U.S. taxes previously paid cannot be foreseen at present.

Under acquisition agreements, the company may be liable to invest in or increase the purchase price of acquired companies up to additional $12,800,000 cash and 393,653 shares of common stock (see note K).

H. Preferred Stock

Preferred stock is entitled to $35 per share in liquidation. The amount of $35 per share for the 200,000 shares outstanding is $2,000,000 greater than their aggregate par value.

Convertible preference stock, $2.10 series, is initially convertible into 1.18 shares of USM common stock, par value $12.50 per share, subject to certain antidilution provisions, may not be redeemed before March 1, 1974 and is entitled to $50 per share ($36,545,000) in case of liquidation or dissolution.

Preference stock ranks junior to the existing preferred stock as to dividends and assets. The Board of Directors is authorized to provide for issuance of authorized and unissued shares of such stock from time to time in series and to fix before issuance the number of shares, the preferences, rights and restrictions of each series.

I. Stock Purchase Plan

Under the Career Executive Incentive Stock Purchase Plan, rights were granted during the year to 91 employees to purchase 56,110 shares of common stock at $14.10 to $16.90 per share which was 40% of the quoted market value on the last business day prior to the date of the respective grants. During the year, options for 52,910 shares were exercised and 3,200 shares lapsed.

Under the provisions of the plan, the options, which must be exercised within 60 days after the date of grant, provide for a purchase price equal to the higher of the par value of such shares or 40% of the last reported sales price of such stock on the last business day prior to the date of the grant. The aggregate number of shares which may be sold under the plan will not exceed 200,000 shares which will be made available from treasury common stock.

Sale or disposition of shares sold under the plan is restricted. Restrictions expire from time to time during the employee's service (generally a period of up to 25 years) as to portions of the shares purchased. In the event of termination of employment, the plan provides, with certain exceptions, for the sale of the shares to the company by the employee at the original purchase price. The excess of the market value at date of grant over the option price (aggregating $3,148,000 for options exercised) is being charged on a pro rata basis to income over the period from date of grant to dates on which the restrictions lapse. Annual charges to income in connection with the 152,710 shares issued are insignificant.

On March 5, 1970, rights were granted to 66 employees to purchase 32,200 shares of common stock at $12.85 per share which was 40% of the quoted market value on the last business day prior to the date of the grant. An additional 15,290 shares may be sold to employees under the plan from time to time through December 31, 1977.

J. Earnings Per Share

Earnings per common share are based on the weighted average number of shares outstanding during each year after giving retroactive effect to the pooling of interests with Finch referred to in note A and after deducting dividend requirements on the 6% preferred stock (1970 — $300,000, 1969 — $302,000) and on the convertible preference stock, $2.10 series (1970 — $1,560,000, 1969 — $954,000, 7/12 of the annual dividend requirement).

The fully diluted earnings per common share for each year assumes full conversion of the convertible preference stock, $2.10 series and the elimination of the related dividends. The outstanding warrants had no effect on earnings per common share data as the exercise price was in excess of the average market and closing price of the common stock. No dilution would result from shares contingently issuable in connection with acquisition agreements.

K. Capital Stock and Additional Paid-In Capital

Changes during the year ended February 28, 1970 in capital stock and additional paid-in capital were as follows:

	Preferred Stock		Convertible Preference Stock, $2.10 Series		Common Stock		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Amount
Balance at beginning of year (note A)	201,016	$3,042,000	772,609	$38,630,000	4,547,642	$51,437,000	$ 467,000
Stock issuances:							
Acquisition of businesses					25,000	849,000	(85,000)
Exercise of stock purchase rights and warrants					48,910	1,662,000	333,000
Conversions of preference stock, $2.10 series			(41,704)	(2,085,000)	49,200	615,000	1,470,000
Treasury shares acquired	(1,016)	(26,000)			(27,500)	(1,012,000)	—
Value of warrants issued in connection with loan stock							3,634,000
Other					(1,690)	(53,000)	(17,000)
Balance at end of year	200,000	$3,016,000	730,905	$36,545,000	4,641,562	$53,498,000	$5,802,000

The company has agreed to issue up to a maximum of 393,653 additional shares of common stock under the terms of acquisition agreements contingent upon future earnings of acquired companies and the future market value of USM common stock.

At February 28, 1970, 862,468 shares of common stock were reserved for issuance upon conversion of convertible preference stock, $2.10 series.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareowners
USM Corporation

We have examined the consolidated balance sheet of USM Corporation and Subsidiaries at February 28, 1970, and the related consolidated statement of income and retained earnings and the consolidated statement of source and use of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiary companies which were examined by other independent accountants whose reports have been furnished to us. Our opinion, insofar as it relates to the subsidiary companies not examined by us, is based solely upon such reports. We previously made a similar examination of the consolidated financial statements for the preceding year.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of USM Corporation and Subsidiaries at February 28, 1970 and 1969, and the consolidated results of their operations and the source and use of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Boston, Massachusetts
April 10, 1970

Five Year Consolidated Summary

(000's omitted) Fiscal Year	1970	1969	1968	1967	1966
Income Statement					
Sales and other operating income	**$ 384,902**	$ 314,443	$ 245,761	$ 243,134	$ 208,762
Leased machinery revenue	**44,782**	44,677	45,975	45,915	44,902
Gross revenues	**429,684**	359,120	291,736	289,049	253,664
Cost of sales	**261,143**	206,098	157,442	157,064	132,537
Cost of leased machinery operations	**17,704**	18,088	19,169	16,464	16,989
Selling and administrative	**97,481**	86,451	78,738	76,415	66,461
Research and development	**13,277**	11,939	9,823	9,590	8,488
	389,605	322,576	265,172	259,533	224,475
Operating income	**40,079**	36,544	26,564	29,516	29,189
Other income less other charges	**(3,151)**	(192)	1,055	966	1,361
Income before income taxes	**36,928**	36,352	27,619	30,482	30,550
Provision for U. S. and foreign income taxes	**17,217**	17,470	12,753	13,217	13,613
Income before minority interest	**19,711**	18,882	14,866	17,265	16,937
Minority interest	**1,114**	1,919	1,922	1,898	2,055
Net income before extraordinary items	**18,597**	16,963	12,944	15,367	14,882
Extraordinary items	**—**	—	162	—	—
Net income	**18,597**	16,963	13,106	15,367	14,882
Earnings retained	**$ 9,433**	$ 9,130	$ 6,060	$ 8,309	$ 8,955
Financial Position					
Current assets	**$ 231,065**	$ 208,028	$ 150,724	$ 136,977	$ 119,854
Leased machinery — net	**70,869**	67,914	70,701	71,276	70,752
Property, plant and equipment — net	**97,113**	88,847	72,249	67,322	58,136
Intangibles and other assets	**62,633**	22,768	12,114	9,849	7,944
Total assets	**461,680**	387,557	305,788	285,424	256,686
Current liabilities	**94,250**	63,199	45,738	45,798	37,087
Long-term debt	**80,673**	40,988	27,774	12,111	1,086
Other noncurrent liabilities	**22,500**	18,007	14,605	12,806	12,155
Minority interest	**2,248**	17,936	17,181	17,109	17,201
Total liabilities	**199,671**	140,130	105,298	87,824	67,529
Shareowners' equity	**$ 262,009**	$ 247,427	$ 200,490	$ 197,600	$ 189,157
Per Common Share *					
Net income	**$3.62**	$3.47	$2.78**	$3.24	$3.14
Depreciation and amortization	**4.52**	4.60	4.61	4.35	4.08
Provision for deferred income tax	**.28**	.14	.22	.31	.13
Total funds from operations	**$8.42**	$8.21	$7.61	$7.90	$7.35
Dividends paid	**$1.60**	$1.55	$1.50	$1.50	$1.25
Other Statistics					
Capital expenditures	**$ 36,383**	$ 26,578	$ 30,370	$ 35,194	$ 31,753
Depreciation and amortization	**$ 20,871**	$ 20,818	$ 21,266	$ 20,180	$ 18,910
Provision for deferred income taxes	**$ 1,299**	$ 649	$ 1,030	$ 1,426	$ 601
Dividend payout	**44%**	45%	54%	46%	40%
Ratio of current assets to current liabilities	**2.5 to 1**	3.3 to 1	3.3 to 1	3.0 to 1	3.2 to 1
Average number of common shares outstanding	**4,619,167**	4,529,925	4,609,779	4,644,329	4,639,489
Number of shareowners	**22,883**	22,612	20,611	21,618	22,491
Number of employees	**27,377**	25,957	23,310	23,351	22,872

All years have been restated to include Finch Paint & Chemical Co. on a pooling of interests basis.

* Based on weighted average number of shares outstanding during the year (after adjusting for two-for-one stock split approved by shareowners on July 25, 1968) after deducting the dividend requirements on preferred and preference stock.

** Including extraordinary income 2/29/68 (.03)

USM Worldwide

Capital Equipment Group

Domestic

Farrel Company Division
Ansonia, Connecticut
Rochester, New York

Lombard Plastics Machinery Division
Ashland, Massachusetts

Standard Tool Division
Leominster, Massachusetts

Turner Tanning Machinery Division
Peabody, Massachusetts

International

Farrel Andes SRL
Caracas, Venezuela

Farrel Canada Limited
Rexdale, Ontario, Canada

Farrel France, SARL
Paris, France

Farrel GmbH
Frankfurt/Main, West Germany

Farrel Internationaal NV
Liege, Belgium

Farrel Italiana S.R.L.
Milan, Italy

Farrel Mexicana
Mexico City, Mexico

Machines Turner SA
Ivry-sur-Seine, France

Maschinenfabrik Turner AG
Oberursel, West Germany

John Orme Ltd.
Rushden, England

*Pomini Farrel SpA
Castellanza (Varese), Italy

Samco-Strong Ltd.
Bristol, England

Samco-Strong Machinery Pty., Ltd.
Melbourne, Australia

Trockentechnik, GmbH
Homberg/Niederrhein, West Germany

USMC International Ltd.
Turner Machinery Division
Leeds, England

Chemical Group

Domestic

Chemical Division
Middleton, Massachusetts
Kenton, Tennessee

Crown-Metro Inc.
Providence, Rhode Island
Greenville, South Carolina

Finch Paint & Chemical Co.
Torrance, California

Girder Chemical Division
East Rutherford, New Jersey

Upco Chemical Division
Cleveland, Ohio

Chemical Group (Cont'd)

International

Bitumen Industries, Ltd.
Slough, England

Bostik Australia Pty. Ltd.
Thomastown, Australia

Bostik A/S
Copenhagen, Denmark

Bostik Ltd.
Leicester, England

Bostik SA
Epinay-sur-Seine, France

Bostik GmbH
Oberursel, West Germany

Bostik, Ltd.
Dublin, Ireland

*Bostik Japan, Ltd.
Tokyo, Japan

Bostik, NV
Dordrecht, Netherlands

Bostik New Zealand, Ltd.
Wellington, New Zealand

Bostik A/S
Oslo, Norway

Bostik-Colas e Vedantes Ltda.
Povoa de Santo Adriao, Portugal

Bostik (Pty.) Ltd.
Port Elizabeth, South Africa

Bostik SA
Barcelona, Spain

Bostik AB
Halsingborg, Sweden

Bostik, GmbH
Zurich, Switzerland

Crown-Metro (Canada) Ltd.
Granby, P.Q., Canada

Ebsco Products (Pty.) Ltd.
Johannesburg, South Africa

USM Limited
Chemical Division
Montreal, P.Q., Canada

USM Chemical SpA
Milan, Italy

USM Mexicana SA de CV
Chemical Division
Mexico City, Mexico

Fastener Group

Domestic

Fastener Division
Shelton, Connecticut
Hopkinsville, Kentucky

Molly Fastener Division
Temple, Pennsylvania

Nylok Fastener Division
Paramus, New Jersey
Lincolnwood, Illinois
Torrance, California

Parker-Kalon Fastener Division
Clifton, New Jersey
Campbellsville, Kentucky

Warren Division
Mt. Clemens, Michigan

Fastener Group (Cont'd)

International

Companhia United Shoe Machinery
do Brasil
Fastener Division
São Paulo, Brazil

The Indian Tack and Nail Company, Ltd.
Calcutta, India

Manufacture Française d'Oeillets
Métalliques
Paris, France

*Nippon Pop Rivets and Fasteners Ltd.
Tokyo, Japan

George Tucker Eyelet Co. Ltd.
Birmingham, England

Tucker Industries Pty., Ltd.
Mitcham, Australia

Tucker Metallwaren GmbH
Giessen, West Germany

Tucker Products Ltd.
Monmouthshire, Wales

United Shoe Machinery Company AB
Fastener Division
Orebro, Sweden

USM Argentina, S.A.I.C.
Fastener Division
Buenos Aires, Argentina

USM Limited
Fastener Division
Montreal, P.Q., Canada

USM Mexicana SA de CV
Fastener Division
Mexico City, Mexico

Production Machinery and Related Supplies Group

Domestic

Cutting Die Division
St. Louis, Missouri

Inter-Coastal Shoe Machinery Corporation
Boston, Massachusetts

Krippendorf Kalculator Company
Lynn, Massachusetts

Machinery Division
Beverly, Massachusetts

Medway Division
Medway, Massachusetts

New Products Division
Beverly, Massachusetts

Transamerican Shoe Machinery Corporation
Boston, Massachusetts

USM Company of Puerto Rico
Carolina, Puerto Rico

Whitman Metal Stamping Division
Whitman, Massachusetts
Plymouth, New Hampshire

* Affiliate

Production Machinery and Related Supplies Group (Cont'd)

International

Belturbet Manufacturing Co. Ltd.
Belturbet, Ireland

The British United Shoe Machinery Company Ltd.
Leicester, England

The British United Shoe Machinery Company of Australia Pty., Ltd.
Melbourne, Australia

British United Shoe Machinery Company (South Africa) (Pty.) Ltd.
Port Elizabeth, South Africa

The British United Shoe Machinery Company of New Zealand Ltd.
Wellington, New Zealand

Companhia United Shoe Machinery do Brasil
Machinery Division
São Paulo, Brazil

Deutsche Vereinigte Schuhmaschinen GmbH
Frankfurt/Main, West Germany

General Products Ltd.
Dublin, Ireland

Japan United Shoe Machinery Co. Ltd.
Tokyo, Japan

*M. M. United (Pty.) Ltd.
Port Elizabeth, South Africa

O. A. Miller (Ireland) Ltd.
Belturbet, Ireland

*Mobbs Miller Units Ltd.
Northampton, England

Oesterreichische Vereinigte Schuhmaschinen GmbH
Vienna, Austria

Union de Maquinaria para Calzado, SA
Barcelona, Spain

United Shoe Machinery Company, SAB
Brussels, Belgium

United Shoe Machinery Company of Chile
Santiago, Chile

United Shoe Machinery Company A/S
Copenhagen, Denmark

United Shoe Machinery Oy
Tampere, Finland

United Shoe Machinery Company de France
Paris, France

United Shoe Machinery Company d'Italia SpA
Milan, Italy

United Shoe Machinery Company A/S
Oslo, Norway

United Shoe Machinery Portugal
Oporto, Portugal

Production Machinery and Related Supplies Group (Cont'd)

United Shoe Machinery Company AB
Machinery Division
Orebro, Sweden

United Shoe Machinery Company of Uruguay
Montevideo, Uruguay

USM Argentina, S.A.I.C.
Machinery Division
Buenos Aires, Argentina

USM Limited
Machinery Division
Montreal, P.Q., Canada

USM Far East Ltd.
Tokyo, Japan

USM Mexicana SA de CV
Machinery Division
Mexico City, Mexico

USM Pan-American, Ltd.
Boston, Massachusetts

Verenigde Schoenmachine Maatschappij NV
Waalwijk, Netherlands

Vereinigte Schuhmaschinen AG
Zurich, Switzerland

Whitfield, Hodgson & Brough Ltd.
Kettering, England

Special Products Group

Domestic

Bailey Division
Amesbury, Massachusetts

Boxboard Division
W. Hopkinton, New Hampshire

Consumer Products Division
Reading, Pennsylvania

Converter Division
Leominster, Massachusetts

S. A. Felton & Son Company
Manchester, New Hampshire

Gear Systems Division
Wakefield, Massachusetts

Hoague-Sprague Division
Lynn, Massachusetts

Mills Transfer Company
Boston, Massachusetts

Nylok Licensing Division
Boston, Massachusetts

Schaeffer Magnetics, Inc.
Chatsworth, California

*Spiras Systems, Inc.
Waltham, Massachusetts
Whitinsville, Massachusetts

Truelove & Maclean, Inc.
Waterbury, Connecticut

USM Precision Products, Inc.
Caguas, Puerto Rico

Vibrac Corporation
Chelmsford, Massachusetts

Special Products Group (Cont'd)

International

B. U. Engineering (Pty.) Ltd.
Port Elizabeth, South Africa

Elta Plastics Australia Pty., Ltd.
Thomastown, Australia

Elta Plastics Limited
Stockton-on-Tees, England

S. A. Felton & Son Company
Hamilton, Ontario, Canada

Service (Engineers) Ltd.
Stoke-on-Trent, England

United Marketing (Leicester) Ltd.
Leicester, England

Administration and Finance

USM Corporation (International)
Lausanne, Switzerland

USM Far East Ltd.
Tokyo, Japan

USM International Finance Corporation
Boston, Massachusetts

USMC International Ltd.
Leicester, England

Sales and Service

Domestic

Automotive Industry Sales
Birmingham, Michigan

Construction Industry Sales
Shelton, Connecticut

Export Sales
Boston, Massachusetts

Footwear Industry Sales
Auburn, Maine
Brockton, Massachusetts
Cincinnati, Ohio
Harrisburg, Pennsylvania
Haverhill, Massachusetts
Johnson City, New York
Lynn, Massachusetts
Milwaukee, Wisconsin
Nashville, Tennessee
New York, New York
Northboro, Massachusetts
St. Louis, Missouri
Carolina, Puerto Rico

General Industry Sales
Atlanta, Georgia
Elmhurst (Chicago), Illinois
City of Commerce (Los Angeles), California
Woburn (Boston), Massachusetts

Government Sales
Washington, D. C.

Plastics Industry Sales
Akron, Ohio
Ansonia, Connecticut
Atlanta, Georgia
Birmingham, Michigan
Chicago, Illinois
Houston, Texas
Los Angeles, California
Pittsburgh, Pennsylvania

Directors

C. George Bennion
Chairman and Managing Director, British United Shoe Machinery Co. Ltd.

Harold E. Booma □
Executive Vice President

Lloyd D. Brace ■
Former Chairman, The First National Bank of Boston

William S. Brewster ■□
Chairman

George R. Brown ■
Retired Chairman, USM

A. Austin Cheney □
Vice President

Franklin Farrel, 3rd ■□
Executive Vice President

Frank L. Farwell ■
President, Liberty Mutual Insurance Companies

John M. Fox
Chairman, United Fruit Company

George A. Goss, Jr.
Vice President, Scovill Manufacturing Company

Edward B. Hinman
President, International Paper Company

Herbert W. Jarvis ■□
President

John H. Meyer □
Vice President

Henry D. Sharpe, Jr.
President, Brown & Sharpe Manufacturing Company

Robert G. Stone ■
Trustee

Thomas D. Welch □
Executive Vice President

■ Member of Executive Committee
□ Officer of Corporation

Officers

William S. Brewster
Chairman of the Board and Chief Executive Officer

Herbert W. Jarvis
President

Harold E. Booma
Executive Vice President, U.S. and Canadian Operations

Thomas D. Welch
Executive Vice President, International Operations

Franklin Farrel, 3rd
Executive Vice President, Farrel Operations

John H. Meyer
Vice President, Finance

John E. Webb
Vice President, Operations

Richard L. Hobbs
Vice President, General Counsel, U.S.A.

Robert W. Maynard
Vice President, General Counsel, International

A. Austin Cheney
Vice President

Walter L. Abel
Vice President, Systems

James P. McSherry
Vice President, Corporate Development

Bruce H. Anderson
Assistant Vice President

William F. G. Dawson
Assistant Vice President

William J. Horne
Assistant Vice President

Donald E. Houser
Assistant Vice President

Edgar E. Joiner
Assistant Vice President

Edwin T. Mitchell
Assistant Vice President

Gilbert W. O'Neil
Assistant Vice President

Richard K. Perry
Assistant Vice President

Alan W. Sampson
Assistant Vice President

Dana W. Woodward
Assistant Vice President

William H. Dykstra
Treasurer

Robert S. Stockwell
Controller

Edward P. Chase
Secretary

Management Changes

Alan W. Sampson
Assistant Vice President
was named Vice President, Marketing
Farrel Company Division
June 1, 1969

Edgar E. Joiner
Assistant Vice President
was named Manager, Machinery Group
June 1, 1969

William H. Dykstra
Assistant Treasurer
was elected Treasurer
September 24, 1969

Gilbert W. O'Neil
was appointed Assistant Vice President
September 24, 1969
continuing as Director, Corporate Planning

William F. G. Dawson
was appointed Assistant Vice President
September 24, 1969
continuing as Manager, Fastener Group

James P. McSherry
was elected
Vice President, Corporate Development
December 23, 1969

Walter L. Abel
Vice President, Research
was named Vice President, Systems
January 2, 1970
continuing as Director, Research

John E. Webb
Vice President, International
was named Vice President, Operations
January 2, 1970
continuing as Vice President, International

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